

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L SECTION 1 OF 2 LIMA 7968

E.O. 11652: GDS

TAGS: EINV, EMIN, PFOR, PE

SUBJ: MARCONA OFFICIALS MEET WITH PRIME MINISTER AND
CABINET MEMBERS

REF: LIMA 7925

SUMMARY: MARCONA OFFICIALS FURTH AND COMPTON MET EVENING
SEPTEMBER 24 WITH PRIME MINISTER VARGAS PRIETO AND NINE OTHER
CABINET MEMBERS. MEETING WAS CORDIAL AND IN FURTH'S VIEW
OPENS PATH TO MUTUALLY SATISFACTORY AGREEMENT. AS FURTH SEES
IT, GOP MUST NOW DO TWO THINGS: BEGIN SUBSTANTIVE DISCUSSION
WITH MARCONA TO ESTABLISH NET COMPENSATION FIGURE, AND PROVIDE
MARCONA WITH LETTER AUTHORIZING COMPANY TO NEGOTIATE EXPANSION
OF PELLET PLANT. COMPENSATION WOULD NOT BE IN LUMP SUM BUT
IN FORM OF PAYMENTS FROM SINKING FUND ESTABLISHED BY PROCEEDS
FROM ORE SHIPMENTS. MANY MORE MEETINGS WILL BE REQUIRED TO
WORK OUT DETAILS, AND MARCONA ANTICIPATES FURTHER DIFFICULTIES
AND DELAYS. HOWEVER, THEY BELIEVE MEETING REPRESENTS LONG
STEP FORWARD AND PUTS MARCONA PROBLEM ON PATH TOWARD SETTLE-
MENT. END SUMMARY

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1. AS REPORTED REFTTEL, AMBASSADOR HAD ARRANGED MEETING

BETWEEN MARCONA OFFICIALS AND PRIME MINISTER FOR EVENING SEPTEMBER 24. FURTH AND COMPTON SUBSEQUENTLY CALLED ON AMBASSADOR SEPT 25 TO BRIEF HIM ON RESULTS. THEY SAID THAT MEETING EVENTUALLY GOT UNDER WAY AT NINE AFTER TWO-HOUR DELAY OCCASIONED BY PRIOR MEETING OF CABINET WITH OTHER GOP OFFICIALS, INCLUDING FORMER MINES MINISTER FERNANDEZ MALDONADO, FOR OBVIOUS PURPOSE OF DISCUSSING MARCONA PROBLEM. TO MARCONA OFFICIALS' PLEASANT SURPRISE, NINE OTHER CABINET MEMBERS WERE PRESENT VARGAS PRIETO HAD MENTIONED ONLY FOUR IN HIS CONVERSATION WITH AMBASSADOR), INCLUDING LA VERA (MINES), GALLEGOS (AGRICULTURE), IBANEZ (INDUSTRY), BARUA (FINANCE), HOYOS (FOOD), ARIAS (COMMERCE) AND GARCIA (TRANSPORT). MARCONA OFFICIALS DID NOT KNOW WHO TWO OTHERS WERE. BESIDES BARUA, A CIVILIAN, ARIAS (AIR FORCE) WAS ONLY NON-ARMY MAN PRESENT.

2. PRIME MINISTER OPENED MEETING AND SAID GOP GROUP WOULD BE INTERESTED IN ANYTHING MARCONA MIGHT HAVE TO SAY. FURTH SAID HE APPRECIATED OPPORTUNITY TO BRIEF GROUP ON SERIOUS MUTUAL PROBLEM WHICH MARCONA BELIEVED COULD BE RESOLVED. HE BELIEVED MARCONA HAD BEEN GOOD CORPORATE CITIZEN OF PERU, AND WHILE MARCONA ACCEPTED PERU'S RIGHT TO EXPROPRIATE HE BELIEVED COMPANY IS ENTITLED TO COMPENSATION. ARIAS ASKED ABOUT MARCONA'S DEBTS, TO WHICH FURTH REPLIED HE DID NOT BELIEVE THERE WERE ANY, BUT IT IS MATTER WHICH CAN BE DISCUSSED. ARIAS SAID HE UNDERSTOOD MARCONA HAD SET VALUE AT \$172 MILLION; WAS MARCONA PREPARED TO REVIEW THIS FIGURE? FURTH SAID MARCONA WOULD REVIEW IT AND WOULD WELCOME OPPORTUNITY TO DISCUSS IT FURTHER.

3. VARGAS PRIETO NOTED THAT COMPENSATION WOULD BE VERY DIFFICULT FOR GOP. FURTH REPLIED THAT HE COULD THINK OF A NUMBER OF WAYS IN WHICH THIS COULD BE ARRANGED. FOR EXAMPLE, HIERROPERU NEEDS A THIRD PELLET PLANT IF IT IS TO PROTECT ITS MARKET IN THE FUTURE; MARCONA WOULD BE PREPARED TO ASSIST IN OBTAINING FINANCING. THIS WOULD NOT BE AS EASY AS IN 1972 WHEN PROPOSAL WAS FIRST MADE. COST HAS RISEN FROM \$70 MILLION TO PROBABLY SOME \$140 MILLION, AND JAPANESE ARE NO LONGER IN AS COMFORTABLE BALANCE-OF-PAYMENTS POSITION. ADDITIONAL FINANCING WOULD HAVE TO COME FROM U.S. AND MARCONA IS PREPARED TO ASSIST IN THIS. VARGAS PRIETO SAID HE CONSIDERED THIS TO BE CONFIDENTIAL

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ATTRACTIVE ADDITIVE.

4. FURTH THEN TURNED TO MARCONA SALES CONTRACTS, WHICH HE SAID ALSO HAVE VALUE. ARIAS NOTED THAT UNDER ARTICLE 9 OF EXPROPRIATING DECREE LAW THESE CONTRACTS WERE ANNULLED. FURTH REMINDED HIM THAT CONTRACTS WERE BETWEEN BUYERS AND MARCONA SALES COMPANY, A NON-PERUVIAN CORPORATION TO WHICH PERUVIAN LAW DOES NOT EXTEND. ARIAS THEN ASKED, IF AGREEMENT WERE

REACHED, WOULD MARCONA HAVE ANY OBJECTION TO ORE MARKETING BY PERU, TO WHICH FURTH SAID NO. ARIAS AGAIN RAISED QUESTION OF MARCONA'S DEBTS, TO WHICH FURTH REPLIED THAT HE DOES NOT BELIEVE THERE ARE ANY, BUT THAT IF THERE WERE HE COULD NOT CONCEIVE THAT THEY COULD POSSIBLY AMOUNT TO MORE THAN \$72 MILLION.

5. FURTH THEN DESCRIBED HOW SETTLEMENT MIGHT BE ARRANGED. A NUMBER OF CONTRACTS WILL HAVE TO BE NEGOTIATED, INCLUDING SUPPLY CONTRACTS WITH JAPAN AND A CONTRACT TO COVER ADDITIVE COSTS WITH U.S. BANKS. DEFERRED REPAYMENTS COULD BE ARRANGED GEARED TO PRODUCT DELIVERY. MARCONA WOULD HAVE A TECHNICAL ASSISTANCE AGREEMENT WITH HIERROPERU TO ENSURE THE QUALITY CONTROL WHICH THE JAPANESE WILL DEMAND (MINISTERS EXPRESSED CONCERN THAT THIS WOULD NOT MEAN THAT MARCONA WOULD AGAIN TAKE OVER MANAGEMENT, ON WHICH POINT FURTH REASSURED THEM) AND A MARKETING AGREEMENT WITH MINEROPERU. FINALLY, BANKS WOULD ARRANGE FOR SINKING FUND TO BE ESTABLISHED OUTSIDE PERU INTO WHICH PAYMENTS WOULD BE MADE AS SOON AS SHIPPING AND SALES ARE REESTABLISHED. MARCONA WOULD BE PREPARED TO DRAW ITS COMPENSATION FROM THIS SINKING FUND. (BARUA HAD ASKED WHETHER COMPENSATION HAD TO BE IN ORE AS MARCONA AT FIRST SUGGESTED. FURTH SAID NO, MARCONA WOULD OF COURSE TAKE MONEY, ALTHOUGH ORE MIGHT BE BETTER FOR BOTH PARTIES.)

6. VARGAS PRIETO SAID THE PROPOSAL SOUNDED VERY INTERESTING, AND ASKED LA VERA AND ARIAS TO ASSEMBLE TEAM TO WORK OUT DETAILS WITH MARCONA. MEETING BROKE UP ON FRIENDLY NOTE, WITH NEW TRANSPORT MINISTER GARCIA ALSO URGING COMPTON TO MEET WITH HIM AT EARLY DATE TO DISCUSS SHIPPING.

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7. FURTH COMMENTED TO AMBASSADOR THAT HE FELT GREATLY ENCOURAGED BY MEETING. IT HAD PROVIDED MARCONA WITH AN OPENING AND AN OPPORTUNITY FOR HEARING AT CABINET LEVEL. HE RECOGNIZED THAT MUCH WORK HAS TO BE DONE, AND REVERSES MUST BE ANTICIPATED. HOWEVER, HE NOW BELIEVED THAT QUESTION OF COMPENSATION HAS BEEN REDUCED ESSENTIALLY TO A "NUMBERS GAME." GOP MIGHT COME UP WITH FRESH CLAIMS, BUT MARCONA COULD EQUALLY WELL ADJUST ITS VALUATION UPWARDS. THIS IS GAME MARCONA CANNOT WIN UNLESS GOP WANTS IT TO, BUT IT APPEARS THAT GOP HAS RECOGNIZED THAT IT IS IN ITS INTEREST TO LET MARCONA WIN SOMETHING. FURTH SAID PLAN HE HAD OUTLINED TO PRIME MINISTER AND OTHERS WOULD PERMIT PAYMENTS TO BE DIFFUSED WITHOUT APPEARING AS LUMP SUM AND WITHOUT NECESSITY FOR ANY CHANGE IN DECREE LAW (INCLUDING ARTICLES 8 AND 9). EXPANSION OF PELLET PLANT MAKES THIS POSSIBLE BECAUSE IT CONSTITUTES ADDED SOURCE OF REVENUE.

8. FURTH SAID MARCONA NOW NEEDS TWO THINGS FROM GOP: (1) A LETTER, POSSIBLY FROM MINES MINISTER, AUTHORIZING MARCONA TO EXPLORE PELLET PLANT EXPANSION AND FINANCING, AND (2) SUBSTANTIVE DISCUSSION ON NET COMPENSATION FIGURE. AMBASSADOR OBSERVED THAT IT WOULD BE WELL TO REACH AGREEMENT BEFORE CERTAIN EXPECTED CHANGES IN CABINET FEBRUARY 1 (VARGAS PRIETO CONFIDENTIAL

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WILL RETIRE, AND IS SCHEDULED TO BE REPLACED BY FERNANDEZ MALDONADO). FURTH AGREED AND SAID HE HOPED AGREEMENT COULD BE NAILED DOWN BEFORE CHRISTMAS SO THAT IT WOULD THEN BECOME ESSENTIALLY A BANKING PROBLEM RATHER THAN A MARCONA PROBLEM. GOP HAS SHOWN HEALTHY RESPECT FOR ITS AGREEMENTS WITH U.S. AND OTHER FOREIGN BANKS WHICH IT HAS NOT ALWAYS EXTENDED TO COMPANIES SUCH AS MARCONA.

9. WE SHARE FURTH'S AND COMPTON'S PLEASURE AT POSITIVE RESULTS OF THIS MEETING; AT SAME TIME WE APPRECIATE AS MUCH OR PERHAPS MORE THAN THEY THE NEGOTIATING DIFFICULTIES WHICH LIE AHEAD. IN ESSENCE, GOP HAS ALREADY REDUCED MARCONA'S ASKING PRICE FROM \$172 MILLION TO \$100 MILLION WITHOUT PROLONGED BARGAINING, AND UNDOUBTEDLY EXPECTS THERE WILL BE MORE TO SQUEEZE OUT OF THIS FIGURE THAN MARCONA IS PERHAPS NOW PREPARED TO CONCEDE. ALSO DEAL IS HIGHLY COMPLICATED, AND THE REPUTATIONS OF MINISTER SUCH AS LA VERA DO NOT REST ON THEIR QUICK GRASP OF FINANCIAL DETAIL. NEVERTHELESS, WE DO

AGREE WITH FURTH THAT MEETING REPRESENTS AN IMPORTANT AND
WELCOME STEP (PERHAPS THE FIRST) ON THE PATH OF REAL NEGOTI-
ATIONS.
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